LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 6009 **NOTE PREPARED:** Dec 19, 2006
BILL NUMBER: HB 1076 **BILL AMENDED:**

SUBJECT: Residential Property Tax Deduction.

FIRST AUTHOR: Rep. Day **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State & Local
DEDICATED
FEDERAL

Summary of Legislation: This bill establishes a property tax deduction that phases in the increased assessed value from rehabilitation or enlargement of residential real property.

Effective Date: January 1, 2008.

Explanation of State Expenditures: This bill could have an impact on the state's expenditure for PTRC and Homestead Credit. If the growth of residential property is slowed, then the growth in PTRC and Homestead Credit expenses could also be reduced. However, if rehabilitation work increases as a result of the proposal, then the growth in PTRC and Homestead Credit expenses could increase. PTRC and Homestead Credits are paid from the Property Tax Replacement Fund. All changes in PTRC and Homestead Credit expenditures are subject to the statutory minimum guarantee and the appropriation amount in a given year.

The Department of Local Government Finance would be required to adopt rules to implement this deduction.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: Under this provision, the increase in assessed value (AV) resulting from the rehabilitation or enlargement of residential real property improvements would qualify for property tax deductions over a period of three years. The deduction would be available for both homesteads and non-homestead residential property (1-3 units). It would first apply for taxes payable in 2009.

The deduction would equal 75% of the AV increase in the first assessment year, 50% in the second year, and 25% in the third year. The deduction would not be available after the third year.

Taxpayers would not be permitted to claim more than one deduction for which the rehabilitation or addition may qualify. So, for example, a taxpayer could not claim both a regular abatement and this deduction on the same project. This restriction would <u>not</u> limit the available deductions on the existing property such as the standard, mortgage, blind/disabled, and veterans deductions.

Taxpayers seeking the deduction would have to file a claim for the deduction with the county auditor by May 10 in each year that the taxpayer wishes to claim it. The deduction would be transferrable to a new owner if the property is sold.

The proposed deduction would slow the growth of residential real property AV as it applies to rehabilitations and enlargements. If there is an increase in rehabilitation activity because of the availability of the deduction, then the new activity would provide for an increase in the tax base.

<u>Tax shifts between existing and rehabilitated or enlarged property.</u> Generally speaking, the addition of assessed value to the tax base provides a tax shift from existing property to new or rehabilitated property by spreading the tax levy over a larger tax base. The proposed deduction would slow the shift from all property to the rehabilitated or enlarged residential property. The shift could, however, be accelerated if rehabilitation work increases as a result of the proposal.

<u>Tax shifts between property classes</u>. The varying rates at which assessed values in each class of property grow in relation to each other determine each class's relative share of the tax burden. The extent to which the growth rate for residential property AV is affected by this bill will determine whether any tax shifts will occur between classes. Assuming that the property would have been rehabilitated or enlarged regardless of the deduction, this bill would shift some taxes from residences to other property classes. However, if rehabilitation work increases as a result of the proposal, then taxes would shift to residences.

<u>State Agencies Affected:</u> Department of Local Government Finance.

<u>Local Agencies Affected:</u> County auditors.

<u>Information Sources:</u>

<u>Fiscal Analyst:</u> Bob Sigalow, 317-232-9859.